

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

PD-ABH-319

IDENTIFICATION DATA

<p>A. REPORTING A.I.D. UNIT: <u>USAID/Bangladesh</u> (Mission or AID/W Office) (ES#)</p>	<p>B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN? yes <input checked="" type="checkbox"/> allpped <input type="checkbox"/> ad hoc <input type="checkbox"/> Eval. Plan Submission Date: FY <u>92 0 3</u></p>	<p>C. EVALUATION TIMING Interim <input type="checkbox"/> final <input checked="" type="checkbox"/> ex post <input type="checkbox"/> other <input type="checkbox"/> <div style="text-align: right; font-size: 1.5em;">12/8/231</div></p>												
<p>D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; If not applicable, list title and date of the evaluation report)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">Project #</th> <th style="width: 50%;">Project/Program Title (or title & date of evaluation report)</th> <th style="width: 10%;">First PROAG or equivalent (FY)</th> <th style="width: 10%;">Most recent PACD (mo/yr)</th> <th style="width: 10%;">Planned LOP Cost ('000)</th> <th style="width: 10%;">Amount Obligated to Date ('000)</th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;">388-0066</td> <td style="vertical-align: top;">Enterprise Development Project: End of Project Evaluation - April 1993</td> <td style="vertical-align: top;">1986</td> <td style="vertical-align: top;">9/30/93</td> <td style="vertical-align: top;">8,000</td> <td style="vertical-align: top;">7,706.8</td> </tr> </tbody> </table>			Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)	388-0066	Enterprise Development Project: End of Project Evaluation - April 1993	1986	9/30/93	8,000	7,706.8
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388-0066	Enterprise Development Project: End of Project Evaluation - April 1993	1986	9/30/93	8,000	7,706.8									

ACTIONS

<p>E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR</p> <p style="text-align: center;">Action(s) Required</p> <p style="text-align: center; font-size: 1.2em;">(See Attachment)</p>	<p>Name of officer responsible for Action</p>	<p>Date Action to be Completed</p>
(Attach extra sheet if necessary)		

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo ___ day ___ yr ___

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature Typed Name: <u>RBigelow:OEE</u> Date: <u>2/22/94</u>	Signature: <u>MH</u> Name: <u>Mahmoodul Haq</u> Title: <u>MIDAS</u> Date: <u>10 March 94</u>	Signature: <u>EMcPhie</u> Name: <u>EMcPhie:PRO</u> Title: <u>JRockliffe-King:PRO</u> Date: <u>23 Feb 94</u>	Signature: <u>Richard M. Brown</u> Name: <u>Richard M. Brown</u> Date: <u>2/22/94</u>

H. EVALUATION ABSTRACT (do not exceed the space provided)

This end-of project evaluation of the Enterprise Development Project (EDP) was conducted to assess EDP's success in helping establish MIDAS as a largely self-sufficient provider of services to SMEs in Bangladesh; and its significance in contributing to the establishment and growth of SMEs enterprises in the country. The evaluation team was asked to provide recommendations to MIDAS to ensure its sustainability post-EDP, and to USAID/B regarding implementation strategies for the remaining project life, and for future initiatives in SME development.

The project has been successful in assisting in the establishment of MIDAS as a largely sustainable institution. MIDAS achieved financial sustainability in the first six months of the 1993 fiscal year. However, this sustainability is fragile, given that as much as 81 percent of the portfolio is at risk, and delinquent payments represent 64 percent of the outstanding portfolio. MIDAS's target group has shifted from microenterprises to a more affluent and price-sensitive group of small and medium enterprises over the project life. This may negatively affect MIDAS's credibility and image with donors and constituents and future income prospects, given the ability of the SMEs to tap other sources of finance based on cost. MIDAS has successfully established itself as a credible provider of consulting and technical services, although quality has declined recently. Internal management and procedures have progressed significantly from the 1990 evaluation, but continue to be centralized, with high staff turnover persisting as a problem.

The key recommendations to MIDAS are to continue to improve loan collections and delinquency control, use standard definitions of delinquency, develop a more realistic and larger bad debt provision to cover probable losses, charge interest rates that maintain fund values, target a portion of the portfolio to microenterprises, improve the quality of technical and consulting services, and strengthen internal management procedures through mechanisms recommended in the report.

Abstract

I. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OB TDY Person Days	Contract Cost OB TDY Cost (US\$)	Source of Funds
Mohini Malhotra	DAI	DHR-5448-Q-61-	\$98,500	Project
John Magill	DAI	9081-00		
James Packard				
Winkler	DAI			
M.M. Nurul Haque	DAI			

2. Mission/Office Professional
Staff Person-Days (estimate) 30

3. Borrower/Grantee professional
Staff Person-Days (estimate) 20

Costs

2

ATTACHMENT

Section E: Action Decisions

Actions Required	Action Agent	Date Action to be Completed
1. MIDAS should determine its marketing strategy and identify donor and private sector priorities and interests which parallel MIDAS's own objectives.	MIDAS MD RBigelow NHossain	3/31/94
2. MIDAS should continue to make improvements in loan collections and delinquency control.	MIDAS	9/30/93
3. MIDAS' Board should increase its roles in strategic planning, standard setting and performance monitoring, and divest responsibility for project review and approval to MIDAS management.	MIDAS	9/30/93
4. MIDAS should install a fully operational MIS and provide professional management to oversee MIDAS' use of it.	MIDAS	9/30/93

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

USAID/Bangladesh

April 29, 1993

Mission of Office: _____

Date this summary prepared: _____

Title and Date of Full Evaluation Report: End of Project Evaluation Enterprise Development
Project: Bangladesh April 1993 -

Purpose of Activities Evaluated

The Enterprise Development Project (EDP) is implemented through a Cooperative Agreement with the Micro-Industries Development Assistance Society (MIDAS). Its goal is to contribute to the development and growth of the Small and Medium Enterprise (SME) sector. This was to be achieved through strengthening MIDAS's capabilities to extend financial, managerial, and technical support to promising SMEs, and to serve as a dynamic force for SME growth on a largely self-sustaining basis.

Purpose of Evaluation and Methodology Used

The purpose of this evaluation was to assess EDP's success in helping establish MIDAS as a largely self-sufficient provider of services to SMEs in Bangladesh; and its significance in contributing to the establishment and growth of SMEs enterprises in the country. The evaluation team was asked to provide recommendations to MIDAS to ensure its sustainability post-EDP, and to USAID/B regarding implementation strategies for the remaining project life, and for future initiatives in SME development.

Originally, planned as an interim evaluation, this evaluation was conducted as an end-of-project evaluation as well, since it was in the project's final year. The team used a participatory evaluation approach already instituted by USAID/B prior to the team's arrival in-country. The methodology included a document review of the literature on MIDAS and SMEs in Bangladesh; interviews with MIDAS staff; a structured sample survey of 16 MIDAS-assisted enterprises; structured interviews with Bangladeshi bankers, GOB officials, private entrepreneurs, and representatives of business chambers and donor agencies knowledgeable about MIDAS; and weekly briefings with USAID/B staff.

Findings and Conclusions

Strategic Position and Market Niche. Since the inception of EDP, MIDAS has shifted its primary client from microenterprises and very-small-scale firms that lack access to formal sector financial resources, to a larger-scale, more affluent client group. The implications for MIDAS's long-term sustainability are that MIDAS is increasingly serving a price-sensitive clientele, with access to alternative and often cheaper sources of finance than MIDAS can provide. This has led MIDAS to lower interest rates, which will have a negative impact on future revenues. Second, the client group that MIDAS now serves is not a priority for many of the donor agencies; the donor community may conclude that MIDAS is not an appropriate institution to support or collaborate with.

Financial Performance. The EDP has been largely successful in achieving its intended purpose of institutional strengthening of MIDAS. MIDAS's level of operating self-sufficiency rose from 51 percent in 1990 to 88.4 percent in 1992. Conservative projections for 1993 show that MIDAS is largely self-sufficient.

However, MIDAS's financial status is fragile. As much as 81 percent of the portfolio is at risk, and delinquent payments represent 64 percent of the outstanding portfolio. The practice of refinancing loans gives the incorrect impression that MIDAS has a strong portfolio as reported delinquency rates are low. MIDAS has a recovery rate of less than 10 percent on the portfolio, and the current portfolio is worth 35 to 40 percent of its original value. Over the past five years, the loan portfolio has decapitalized by about 27 percent per year in real terms, largely due to the high rate of delinquency.

Summary

Credibility. MIDAS has demonstrated the ability to compete effectively in the consulting business — consulting revenues contributed 43 percent to total revenues in 1992. However, competitiveness in winning proposals has declined recently due to high staff turnover, reduced staff levels based on staff consigned to BASC, and over-reliance on permanent staff and underutilization of external consultants to perform consulting jobs.

Internal Management. MIDAS has matured and made impressive strides in becoming a more systematized institution since the 1990 evaluation. It has streamlined operations to minimize the duplication of functions across departments, progressed in developing specific computer-based information functions, and improved cost-effectiveness and efficiency in revenue generated by staff member.

Weaknesses in the organization include a centralized management with decision making concentrated within the Board of Directors and the office of the Executive Director. The board is excessively involved in operational rather than strategic management. MIDAS continues to be plagued by high staff turnover, and lacks a monetary staff incentive system and adequate performance evaluations. The MIS has certain deficiencies, the most important being that it is not providing management with the information needed to run the organization efficiently.

Project Contribution to SME Development

The project has had a limited impact on the growth of the small enterprise sector in Bangladesh. At the same time, it was unreasonable to assume that a small project like this would have a significant or measurable impact on overall investment levels in the context of the Bangladeshi economy. The Project Paper also estimated that 80 percent of MIDAS-assisted new businesses would become successful — a success ratio far exceeding the norm for small business start-ups in the rest of the world.

However, it is important to note that the employment generated by the EDP was additive rather than substitutive. There were indications that businesses assisted were creating backward linkages to small firms in the country, as envisioned by the Project Paper.

Recommendations to MIDAS

Strategic Positioning. MIDAS must position itself strategically — it should select and cultivate the market niche(s) it aims to serve, based on rational criteria of the effective demand for services, competition, donor priorities, institutional capability, and profitability.

The evaluation team recommends strongly that MIDAS target a portion of its loan portfolio towards microenterprises that would receive loan sizes of \$1,285 to \$5,140. This market is less interest-rate sensitive, has typically better repayment rates than larger firms, and is more consistent with donor priorities in the country.

Financial Sustainability. With regard to financial sustainability, the most important single action that MIDAS needs to take is to continue to improve loan collections and delinquency control. Other measures are to use standard definitions of delinquency; develop a more realistic and larger bad debt provision to cover probable losses; and charge interest rates that cover the cost of funds, the inflation factor, administrative costs, and losses to maintain fund values.

Credibility. To preserve its credibility, MIDAS must better assess the market to define targets for its services, and make services more responsive to market demand. The quality of consulting and research services should be further improved by increasing staff capacity, using qualified external consultants to complement staff resources, and refining the quality management system in place.

Internal Management. MIDAS needs to improve internal management in the following four ways: (1) Clearly separate the functions of the board and management — the board should concentrate on strategic planning, establish performance standards and measurable targets, and monitor performance, while management should execute MIDAS activities; (2) decentralize the management structure with increased accountability and autonomy at the operational levels; (3) improve personnel management by instituting performance-based evaluations with well-defined criteria, and a monetary incentive program; and (4) develop a functioning MIS, through hiring a full-time MIS director to oversee and direct the planning, design, and implementation of MIS functions.

Recommendations to USAID/B

USAID/B need not provide further direct operational subsidies to MIDAS. MIDAS has a loan portfolio that would, if collections were increased, fully cover all operating expenses. Future USAID/B support to MIDAS should be in the form of funding for specific programs or activities that are mutually agreed upon by MIDAS and USAID/B. Further disbursement of the loan funds should be conditioned upon the presentation of a pending portfolio of qualified loans, and upon continued improvements in principal recoveries and interest income receipts.

The team recommends that USAID/B provide MIDAS with technical assistance and training in strategic planning, loan portfolio management, MIS development, and microenterprise development techniques and methodologies. These services should be provided contingent on MIDAS wishing to receive such assistance.

Lessons Learned

The lessons learned from EDP are relevant to general issues pertaining to project design, implementation, monitoring and evaluation (M&E) and SME project components.

Design. A project design must be based on sound assumptions, and must incorporate the flexibility to revise both the design and the assumptions if they prove untenable. Designs should be based on firm knowledge of the target market, gained through baseline surveys, rapid reconnaissance, or other methods. Indicators and targets need to be explicit and objectively verifiable and should provide a relevant measure of the project's performance and objectives.

Implementation. A project is only as good as its implementation. USAID/B must invest the staff resources to manage its projects effectively. This project should have had a long-term project advisor, and a USAID/B officer to supervise, guide, and help implement the project. Adequate technical assistance and supervision are key elements for project success.

M&E. Active project monitoring and supervision are important to ensure the success of complicated projects. The Logical Framework should be used as a re-planning tool — to check performance against projections and thus to validate the veracity of both explicit and implicit assumptions and to identify needs for revised planning or remedial actions — and revised periodically in light of reality.

If USAID/B wants to be able to determine impact from its interventions, it must invest the resources and time at project start-up to develop an information system that would allow this analysis to be conducted.

SME Project Components. New business development is an inherently risky activity, and programs that aim to assist start-up businesses have a high risk of failure themselves. These risks need to be recognized, and realistic mechanisms for managing the risk — acceptance of higher loss rates or extraordinary measures to minimize loss — must be built into the project projections and planning.

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

ATTACHMENTS

1. MIDAS comments on AES, 3/6/94
2. MIDAS letter to the Mission Director, 1/6/94
3. Final Evaluation Report, April 1993

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

This evaluation was conducted at the end of the seven-year Enterprise Development Project (388-0066). In total, USAID/Dhaka has provided over eleven years of support for MIDAS activities (1982-1993), during which MIDAS evolved from a fledgling donor creation working principally with NGOs to a sustainable development finance institution. Since the evaluation, and during the final months of the project, MIDAS completed a number of actions that have strengthened the organization and largely put it in compliance with the evaluation. Accomplishment of these actions is a measure of the established institutional strength of MIDAS. To the degree that the 1993 evaluation recommendations gave impetus to many of the actions, the Mission and MIDAS found it extremely useful. The most significant actions included:

MISSION COMMENTS ON FULL REPORT

- o Development of a promising new Micro Industries Development Initiative (MIDI) which targets small (often women-run) businesses with non-collateralized loans in the TK 50,000 - 200,000 range.
- o Completion of a feasibility study of Micro Enterprise Credit Guarantee Scheme (MECGS) targeting credit to small firms, and seminal participation in a national seminar on developing a loan guarantee scheme in Bangladesh. Shortly after the seminar, the BDG announced creation of a similar scheme.
- o Adoption of a policy to lower interests rates and decrease collateral requirements to increase MIDAS's competitiveness in offering loans to small businesses.
- o Development of a fully integrated MIS which brings the accounting, commercial and development wings of MIDAS into closer cooperation.
- o Improvement in loan appraisal procedures, with greater attention to assessment of the credit-worthiness and "character" of loan applicants coupled with up-front insistence on loan repayment.
- o Improvement in consulting services through stricter quality control of in-house and external consultants, plus publication of a series of highly relevant business opportunity studies.
- o Improvement in the business library and information services to make MIDAS resources more attractive to users.
- o Management training for staff in a variety of U.S. and third-country programs was completed.
- o The Board of Directors has delegated responsibilities for the decision making processes to the Chief Executive, and the Chief Executive to MIDAS staff further down the management hierarchy.

While MIDAS and USAID can be proud of a successful joint effort in institution building and in achieving a measure of sustain-ability, MIDAS lacks the capital to make full use of its lending capacity and excellent staff. Additional sources of capital are needed from banks and/or donors. Although direct funding has ended, USAID/Dhaka is committed to helping MIDAS achieve its potential by encouraging other donors and members of the private sector to provide support to MIDAS and to use its capabilities.

7



মাইক্রো ইন্ডাস্ট্রিজ ডেভেলপমেন্ট
এসিস্ট্যান্স এন্ড সার্ভিসেস (মাইডাস)

MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES

HOUSE NO. 5 ROAD 16 (NEW), DHAKA-1209, BANGLADESH, GPO BOX 600, DHAKA-1000 TEL: 816126-7, 816094-5, 515117, FAX: 220-2-211183

Ref: M/MD/USAID/ 236

March 6, 1994

Received LMH
3/7/94

Dr. Ross E. Bigelow
Chief
Private Enterprise Division
Office of Economics and Enterprise
USAID Mission
Baridhara, Dhaka

Dear Dr. Bigelow,

The Activity Evaluation Summary (AES) pertaining to the evaluation of MIDAS carried out by DAI in 1993 sent under cover of your letter no. 0189 dated February 22, 1994 was to hand on February 27, 1994.

The entire document has been reviewed as desired. I have also signed at Section-G on the face sheet. We endorse the comments set forth at Section-L on behalf of USAID and MIDAS. However, on the Evaluation Abstract at Section-H and summary of Evaluation Findings, Conclusions and Recommendations at Section-J, we would like put on record the following:

- 1) The statement "MIDAS has successfully established itself as a credible provider of consulting and technical services, although quality has declined recently" is indiscreet and self-contradictory. In fact the quality of MIDAS services is improving continuously and there is no question of its declining. It appears that the evaluation team was unduly influenced by the exasperated remarks of certain disgruntled elements, who bore a grudge against MIDAS for either having failed to secure loans for projects not considered bankable by MIDAS or having been removed from service in MIDAS or having failed to secure some position in MIDAS for themselves or for their relations.
- 2) The concern expressed about the financial status of MIDAS is unrealistic. The team did not take into consideration the peculiarity of the macro-economic situation in Bangladesh and the developmental goal of MIDAS, while analyzing its loan portfolio. They placed MIDAS in the position of a commercial

Continued ...P/2



মাইক্রো ইন্ডাস্ট্রিজ ডেভেলপমেন্ট
এসিস্ট্যান্স এন্ড সার্ভিসেস (মাইডাস)

MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES

HOUSE NO. 5 ROAD 16 (NEW), DHANMONDI, DHAKA-1209, BANGLADESH, C/O BOX 800, DHAKA-1000 TEL: 816186-7, 816094-3, 813117, FAX: 800-2-811188

Ref: M/MD/USAID/

January 6, 1994

Dr. Richard M. Brown
Mission Director
USAID
Dhaka

Dear Dr. Brown,

Kindly refer to my earlier letter of November 10, 1993. We are eagerly looking forward to your visit to MIDAS Head Office at ~~10:00~~ ^{2:30 pm} a.m. on January 31, 1994 tentatively, as given me to understand by Dr. Ross E. Bigelow over telephone."

Meanwhile, you may like to thumb through the brief note we have made out for you, which is enclosed.

With regards.

Yours sincerely,

M Haq

Mahmoodul Haq
Managing Director

Copy for information to:

Dr. Ross E. Bigelow
Chief Private Enterprise Division
Office of Economics and Enterprise
USAID Mission
Baridhara, Dhaka

Encl: As above

MIDAS - PAST PERFORMANCE AND FUTURE OUTLOOK

1.0 GENESIS

1.1 MIDAS was set up in 1982 primarily to serve the NGOs by collecting, collating and disseminating information on technology and by providing technical assistance, training and other facilities for the development of small entrepreneurship and small scale industries in Bangladesh. USAID assistance to MIDAS for the purpose was channelled first through the Asia Foundation under a Cooperative Agreement between USAID and the Foundation. Later under a new Cooperative Agreement concluded in 1983 between USAID and MIDAS the relationship of MIDAS with the NGOs was de-emphasized and stipulation was made for MIDAS to carry out a program for the development of industries in Bangladesh by the provision of loans, training, technical advice and other services directly to private firms and individuals attempting to establish or expand commercially sound businesses. The same purpose was reiterated in the Cooperative Agreement signed in 1987.

2.0 MISSION AND MANDATE

2.1 In terms of the Cooperative Agreements as well as the Memorandum and Articles of Association, MIDAS was mandated to accomplish mainly the following:

- Produce practical-oriented studies of small industry sub-sectors having potential for growth.
- Provide small enterprise development services to other institutions in the form of feasibility studies, market studies and development consultancies.
- Collect and organize information on a wide range of topics useful for entrepreneurs and organizations interested in small enterprise development.

- Carry out "action research" by adapting and implementing conceptual models of enterprise assistance (e.g. sub-contracting, franchising and venture capital financing) and by fostering linkage relationships between micro, small and medium enterprises.
- Organize training courses for the development of entrepreneurship and business.
- Identify and develop small industrial projects and extend financial assistance to them in the form of loans and equity out of the Capital Loan Fund.
- Initiate, establish and incubate Business Advisory Services Center (BASC).
- Develop institutional capabilities of its own to provide needed high quality services to small enterprises for a period of 15 to 20 years on self-sustainable basis.

3.0 PERFORMANCE IN TERMS OF FUND UTILIZATION

3.1 MIDAS implemented two Cooperative Agreements with USAID - the first one was signed in 1983 under Rural Industrial Project and the second one was signed in 1987 under Enterprise Development Project. The amounts received by MIDAS under the two Cooperative Agreements were as follows:

	1st Cooperative Agreement (US \$)	2nd Cooperative Agreement (US \$)
	-----	-----
Capital Loan Fund	1,591,400	5,799,628
Small Enterprise Development Services	548,100	1,156,095
Equipment	54,000	152,654
Training, Evaluation Technical Assistance & Audit	-	588,157
	-----	-----
	2,193,500	7,696,534

Under the 1st Cooperative Agreement MIDAS had to refund an unutilized balance of Tk.6,631,735 from Capital Loan Fund. Under the Second Cooperative Agreement, MIDAS utilised the entire amount of \$7.11 million provided against Capital Loan Fund, Small Enterprise Development Services and Equipment. But a portion amounting to \$0.293 million out of the fund (\$0.588 million) allocated under Technical Assistance, Audit and Training could not be utilized. It is to be noted in this connection that the utilization of fund under these line items was directly controlled by USAID.

4.0 ACCOMPLISHMENT IN REAL TERMS

- 4.1 MIDAS has so far carried out 33 sectoral and sub-sectoral studies, 670 consultancies including 571 feasibility studies and 23 market studies and conducted 16 instances of action research. It has organized 44 training courses including seminars and workshops and trained about 800 persons for the development of entrepreneurship, business, export marketing etc. MIDAS has also developed an extensive collection of literature and information on small enterprise development and its library services are well-used. MIDAS is the distributor of World Bank publications and produces a monthly news-letter, distributing 3,500 copies to publicise recent studies, investment opportunities, buyer interests and upcoming events.
- 4.2 So far as credit services are concerned, MIDAS till November, 1993 developed and approved 195 projects and provided 140 project loans amounting to about Tk.300 million out of the USAID Capital Loan Fund, MIDAS Reflow Fund and the funds received from the Ford Foundation and Swiss Development Cooperation. Credit services include not only identification, screening, development and financing of projects but also monitoring and recovering loans and extending technical, managerial and marketing services to the projects financed as and when required. Of the 140 loans, 32 loans (22.86% numerically) are on schedule, 40 loans (28.57% numerically)

are performing after some rephasing was allowed, 31 loans (22.14% numerically) have become problematic, 10 loans (7.14% numerically) are under the recently launched Micro Enterprise Development Initiative (MIDI) program and 27 loans (19.29% numerically) have been liquidated. The recovery rates of the aforesaid 5 categories of loans are 100%, 77.6%, 10%, 100% and 97.8% respectively (Annexure-I). The small and micro enterprises developed and financed by MIDAS have created employment for about 11,200 persons directly and a larger number indirectly.

- 4.3 MIDAS was entrusted with the responsibility of initiating and establishing Business Advisory Services Center (BASC) through an amendment of its Cooperative Agreement with USAID effected in July, 1990. The responsibility has been duly discharged. In October, 1993 BASC was incorporated as a company limited by guarantee under the Companies Act, 1913. It is now well-set to take off as a free standing and independent broker of services between requesting firms and service delivery institutions as stipulated.
- 4.4 MIDAS has made substantial ground during the last 11 years of its existence both in establishing itself as a viable institution and in providing high-quality financial and non-financial services to small and medium scale industries. It has carved out for itself a solid niche in the business sphere of the country. Thanks to USAID, MIDAS has physical resources in place to continue its operation and pursue its institutional goals. It has also a fine base of human resources with a corps of about 55 committed and dedicated professionals. Its consulting services are frequently and widely sought and paid for by a wide range of clients from the public and the private sector. Its services have been utilised by a number of international agencies in the implementation of their enterprise development programs. As on June 30, 1993, MIDAS attained operational self-sufficiency of about 77%. All out efforts are being made to make MIDAS

fully self-sufficient by the end of the current financial year i.e. June 30, 1994. However, self-sustainability is a relative and not absolute concept and it would be simplistic to judge self-sustainability without taking into consideration the scale of operations of the organization.

5.0 PERCEPTIONS AND REALITY

5.1 GEMINI, in their End of Project Evaluation report, have observed that although MIDAS has earned a reputation for integrity, reliability and quality of service, its competitiveness in winning proposals for consultancies is on the decline and that it is attributable to high staff turnover, over-stretching of resources and charging of overhead at a high rate in pricing services. It is true that MIDAS is now operating in a more competitive environment and has to hard-sell to win bids for consultancy jobs. However, the main handicap of MIDAS is not lack of initiative or efforts on the part of its professionals. The boot is on the other leg. Being an organization given to high standard of integrity and professionalism, MIDAS does not compromise on objectivity or sacrifice transparency in business deals like some of the other consulting firms. This sometimes becomes a minus point for MIDAS. The compensation package offered by MIDAS to its professionals, though better than that of the public sector organizations, is lower than that of many private sector companies and NGOs. So it is quite natural that some of the MIDAS professionals would be attracted by other agencies. The fact that such agencies and organizations prefer candidates with experience in MIDAS in recruiting staff speaks of the high reputation enjoyed by MIDAS. Of course, some professionals leave MIDAS to seek jobs abroad, some to set up enterprises of their own and some just to be housewives after marriage. Nevertheless staff turn-over has not been too great a problem for MIDAS, as it never faced any difficulty in getting good replacements. In fact sometimes adverse remarks against MIDAS are passed by those who fail after having sought

some position in MIDAS for themselves or for their relations. As regards, spreading resources too thin and high pricing of services, MIDAS management is never too rigid in its policies and does make adjustments in deploying its professionals and submitting financial proposals for consultancy jobs, wherever necessary.

5.2 The other strong perception referred to by GEMINI relates to the loan portfolio of MIDAS. There is no denying the fact that the performance of a number of loans provided by MIDAS in the past has not been good. But an analysis of the loan portfolio indicates that the performance has been quite impressive in most of the cases, especially in the case of the recent ones. To quote from GEMINI's latest Evaluation Report "Recoveries on outstanding loans have improved during the past three years, because of improved loan monitoring practices in effect since the 1990 evaluation. This is reflected most vividly in the rapid increase in interest income (from Tk.4,190,200 in 1990 to Tk.8,638,900 in 1992)". The interest income in 1992-93 increased further to Tk.11,668,597. The overall recovery rate of MIDAS, though not very high, is considerably higher than that of the banks and other financial institutions in the country in respect of term loans. Besides, there are cogent reasons for the low recovery of MIDAS loans in some cases. The achievement of MIDAS in the field of small industry financing can be better appreciated if the following facts are taken cognizance of:

- i) The mission MIDAS was required to fulfil had two competing goals. On the one hand, MIDAS was supposed to play a promotional and developmental role nurturing commercial activities among otherwise disenfranchised groups who had little access to institutional credit. On the other hand, it had the obligation to graduate to the position of a self-sustainable organization by serving commercial clients.

- ii) Until recently MIDAS did not have full freedom to approve ~~of~~ projects for MIDAS financing. Before 1986 MIDAS had to obtain government approval for each loan after USAID approval, which extended the loan approval period by one and in some cases two years.
- iii) Quite a few projects were taken up for financing according to the preferences/priorities set by the donor agencies, against the will of MIDAS professionals and most of them have found place in the list of problem projects. USAID? vs.
Swiss +
FF
- iv) MIDAS had to finance projects riskier than those usually entertained by banks and financial institutions.
- v) The terms of MIDAS lending were harder and the interest rates of MIDAS loans were higher, and the MIDAS Board could revise them only in December, 1992.
- vi) During the period MIDAS financed industrial enterprises, the country was hit by a number of natural calamities. The overall environment also was not friendly, as it was characterised by poor macro economic performance, declining rates in GDP growth and drops in investment rates in manufacturing and vitiated by a default culture... A large number of internal factors that were difficult to predict also worked to make the Bangladeshi business environment worse.
- vii. MIDAS was badly handicapped by insufficient information and data base and inadequate legal protection against wilful default by borrowers. ?

5.3. Another perception that is stated by GEMINI to have had currency is that 'MIDAS gives loans to affluent individuals and persons with connections to Board members or staff'. This is an unwarranted and tendentious observation. Of the 140 loans provided by MIDAS so far, only 4 loans (2.86%) were sanctioned in favour of persons related to Board members. One

of these 4 loans has already been liquidated and the recovery rate was 100%. Two loans that have not yet been fully repaid are most regular in repayment, the recovery rate being 100% as against the overall recovery rate of 59.8%. One loan was disbursed in September, 1993 and instalments thereon have not yet become due. The implementation of this project is on schedule. There was no hide and seek in the sanction of these projects, and this was done on full disclosure of facts and strictly in accordance with Article-II (c) (3) of Attachment-2 of the Cooperative Agreement of MIDAS with USAID, which did not bar anybody related to a Board member or staff from submitting project proposals to MIDAS or the Board from considering such proposals.

6.0 EXPERIENCE GAINED AND LESSONS LEARNT

6.1 Over the years MIDAS has not only established itself as a catalyst in the development of small enterprises in Bangladesh but also gained valuable hands-on experience in research and studies, information collection and counselling, entrepreneurship development and project designing and also in project financing and loan monitoring. Particularly MIDAS has learnt a great deal about the character and behaviour patterns of entrepreneurs and acquired sufficient skill and competence to appraise project proposals realistically and implement projects expeditiously. Some of the important lessons about industrial financing that have been learnt are:

- a) Genuine entrepreneurs are more sensitive to quality of services in terms of both mode and time of delivery of loan fund than to the rate of interest or service charge thereon.
- b) In general, small borrowers make greater efforts to repay loans than big borrowers and so micro enterprises deserve more favourable consideration for financing.

- c) Equity participation or venture capital financing is a losing game in Bangladesh and so should not be pursued.
- d) Selection of entrepreneurs is more important than collateralization of loans in long term lending.
- e) Close monitoring and supervision is sine qua non for the success of industrial project financing.
- f) Loans provided to persons with some entrepreneurial experience perform better than those provided to altogether new entrepreneurs.
- g) Training and post-investment counselling do help entrepreneurs who want to help themselves.
- h) The main reason for loan default is lack of earnestness on the part of borrowers.

7.0 FUTURE OUTLOOK AND POSSIBLE AREAS OF COOPERATION WITH USAID

7.1 MIDAS is clearly on course in terms of institutional formation. It is well-equipped with human and physical resources and has a fairly strong capital base. Institutionally and financially it is certainly viable. But MIDAS Board and management consider that just viability is not good enough and the organization must make endeavour to operate not only as a going concern but also as a growing concern. In other words, MIDAS must continue to serve as a dynamic force for growth in the small and micro industries sector by involving itself more deeply and more widely in the development and promotion of small and micro enterprises. The most important limiting factor in the achievement of this goal is inadequacy of resources on the one hand and the peculiar standing of the organization on the other. MIDAS planned to finance projects to the tune of Tk.635 million during its Third Five Year Business Plan period beginning from 1993-94 on the hope of getting necessary fund from USAID and other

agencies. However, the only source of fund now available to MIDAS for financing new enterprises is the recovery of principal loans from the old borrowers. The amount of such recovery is not likely to be more than Tk.25 million per year in the near future. With the existing personnel MIDAS can easily develop projects and disburse loans up to Tk.100 million annually. So, unless investible funds from other sources can be lined up, the capability of MIDAS would remain grossly under-utilized. MIDAS has been trying to get fund from multilateral agencies like IDA, Asian Development Bank, IFAD etc. But such agencies are required to route their assistance through the Government. The Government, however, is hesitant in agreeing to allocating aid fund in favour of MIDAS, as it is a private sector organization. Nevertheless, the Government as well as the said agencies have been requested to allow MIDAS to participate in their small and micro enterprise credit programs.

7.2 MIDAS also needs a steady flow of consultancy assignments to make best use of its existing personnel. The demand for research, survey and feasibility studies etc. from the open market is hardly assured. Without sufficient work, some of the developmental practitioners of MIDAS who have gained experience and expertise in this field may become otiose at times. The offer of some consultancy tasks from development partners like USAID on a regular basis will be of great help to the institutional sustainability of MIDAS.

7.3 The information service provided by MIDAS to walk-in entrepreneurs and institutions through its technical library and bimonthly newsletter is another important dimension of the developmental role of MIDAS. The service has definitely a value in the industrial promotion supermarket. But it does not generate income enough to support itself financially. MIDAS would like to continue to provide this service with some support from others.

- 7.4 Training, especially training for entrepreneurship and business development is another activity in which MIDAS has acquired skill and excellence. There is ample justification for the continuance of this activity as well. But training is not always commercially viable in the situation now prevailing in Bangladesh. To carry on this activity MIDAS would need some financial assistance from outside.
- 7.5 With assistance from USAID, MIDAS has been able to provide necessary training to its professionals for staff development. Staff training, however, should be a regular affair. MIDAS is in a position to meet the expenses of providing training to its professionals locally. But to arrange for their exposure to foreign training, it needs aid from other agencies.
- 7.6 Being a pioneering private sector organization in the sphere of industrial investment and investment promotion, MIDAS can also play a trail-blazing role in certain new areas such as, credit insurance, credit rating etc. Credit insurance encourages lending to small enterprises. Consequent upon a study conducted by MIDAS the Government has already moved to introduce a credit guarantee scheme. Credit rating greatly helps the development of the capital market and facilitates industrial financing by banks and other lending institutions. In advanced countries and also in countries like India and Malaysia there are credit rating agencies to rate companies and their debt instruments. Credit Rating and Information Services Ltd. (CRISIL), Investment Information and Credit Rating Agency (ICRA) and Credit Analysis and Research Ltd. (CARE) in India, BARHAD in Malaysia and MALOT in Israel are rendering very useful services in their respective countries. The establishment of a credit rating agency in Bangladesh would be of immense benefit to its economy at this hour. MIDAS may spearhead an initiative to set up a credit rating agency in Bangladesh in association with renowned and experienced companies like Dun and Bradstreet (D&B) of the U.S.A. if some technical assistance from USAID could be had.

7.7 Thus the challenge before MIDAS now is not survival, but robust operation and growth. From USAID's point of view it should not be a question of merely providing further aid to MIDAS, rather it should be a question of cooperating with an organization they have sponsored, groomed, nurtured and developed in the exploitation of its full potential. In this backdrop the MIDAS Board and management would request USAID to consider cooperating with MIDAS in, among others, the following areas:

- i) Providing a soft-term loan of about \$3 million for providing ^{sub-}loans to small and micro enterprises over a period of 3 years.
 - ii) Introducing MIDAS to other agencies like IDA, ADB, IFAD, NORAD, SIDA, etc. for involving MIDAS in the implementation of their micro enterprise development programs.
 - iii) Awarding some sole-source contracts in favour of MIDAS to carry out studies, or consultancy jobs annually.
 - iv) Providing a limited amount of grant-in-aid to enable MIDAS to continue its information and training services.
 - v) Providing some assistance to MIDAS to train its professionals abroad.
 - vi) Providing some technical assistance to MIDAS to organize a credit rating agency in Bangladesh.
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MICRO INDUSTRIES DEVELOPMENT ASSISTANCE AND SERVICES (MIDAS)
SUMMARY OF RECOVERY OF LOAN REPAYMENT AND SERVICE CHARGE
AS ON NOVEMBER 30 1993

(Amount in '000 Taka)

Projects Summary	No of Proj	Loan Amt	Amt Disb	Total S/Ch Accrued	Amount Due			Amount Received			Amt Adju- sted	Recovery Rate	Amount Over Due			
					Prin	S/Ch	Total	Prin	S/Ch	Total			Prin	S/Ch	Total	
1: PROJECTS ON SCHEDULE																
i. In Operation	15	57016	56730	19863	15150	15464	30614	15150	15464	30614	0	100.0%	0	0	0	0
ii. Under Implementation	17	87114	79806	2630	0	0	0	0	0	0	0	0.0%	0	0	0	0
Total	32	144130	136536	22543	15150	15464	30614	15150	15464	30614	0	100.0%	0	0	0	0
2: PROJECTS REPAYING AFTER REPHASEMENT	40	71475	69981	47449	11857	18672	30529	9660	14046	23706	0	77.6%	2197	4627	6823	
3: PROBLEM PROJECTS																
i. Sick	10	23517	22566	16102	10171	9493	19664	2335	1579	3914	0	19.9%	7636	7915	15751	
ii. Litigated	13	26978	24713	20662	18225	17118	35343	240	627	1067	1149	3.0%	16536	16291	33127	
iii. Willful	8	17947	17651	11490	3896	5004	8700	144	1249	1393	0	16.0%	3552	3755	7307	
Total	31	68442	64930	48254	32092	31615	63707	2719	3555	6374	1149	10.0%	28224	27961	56185	
4: MIDI PROJECTS																
i. In Operation	5	655	655	10	17	12	29	17	12	29	0	100.0%	0	0	0	0
ii. Under Implementation	5	1275	675	6	0	0	0	0	0	0	0	0.0%	0	0	0	0
Total	10	1930	1330	16	17	12	29	17	12	29	0	100.0%	0	0	0	0
5: PROJECTS LIQUIDATED	27	29719	27563	11411	27563	9308	36871	27004	9049	36053	618	97.6%	0	0	0	0
Grand Total:	140	315695	300540	129873	86678	75072	161750	54550	42225	96775	3638	59.6%	30420	32588	63008	